

## Executive Summary Report

**Appraisal Date 1/1/05 – 2005 Assessment Year – 2006 Tax Roll year**

**Specialty Name: Major Retail Properties**

### **Sales - Improved Analysis Summary:**

Number of Sales: six

Range of Sale Dates: 8/ 2002 – 12/ 2004

<b>Sales – Ratio Study Summary:</b>				
	Avg. Assessed Value	Mean Sale Price	Ratio	COV*
2004 Value	\$44,785,000	\$54,523,700	82.14%	19.19%
2005 Value	\$53,039,600	\$54,523,700	97.28%	8.93%
Change	+\$ 8,254,600		+15.14%	-10.26%
%Change <sup>1</sup>	+18.43%		18.43%	-53.47%

\*COV (Coefficient of Variation) is a measurement of uniformity, the lower the number the better the uniformity. The figure -10.26% and -53.47% represents an improvement in the ratio between the assessed value of a property and the sales price of that property.

All sales within the retail specialty, verified as good, were included in the analysis, with the exception of properties which were significantly altered (buildings remodeled or enlarged, or changes in parcel size), after the sale.

### **Population - Parcel Summary Data**

	Land	Imps	Total
2004 Value:	\$1,054,889,400	\$1,445,399,100	\$2,500,288,500
2005 Value:	\$1,122,695,400	\$1,521,661,900	\$2,644,357,300
Percent Change:	+6.43%	+5.28%	+5.76%

Number of Parcels in the Population: 209

<sup>1</sup>The average % change of the sales, excluding Factoria Mall, was 7.07%. Factoria Mall occupancy and revenues have increased substantially recently, as a result its assessed value was significantly under market.

## **Conclusion and Recommendation**

The values recommended in this report improve assessment level, uniformity and equity. It is recommend that these values be posted for the 2005 Assessment Roll.

## **Analysis Process**

### **Specialty**

Specialty Area: 250 (Major Retail)

### **Highest and Best Use Analysis**

**As if vacant:** In general, the highest and best use of major retail properties is development of the site to retail use. In some cases other intense commercial use, such as office construction or a mixed-use commercial project, is feasible.

**As if improved:** Properties within the specialty are considered to developed to their highest and best use.

### **Standards and Measurement of Data Accuracy**

Each sale was verified with the buyer, seller, real estate agent, or tenant when possible. Current data was verified if possible and corrected when necessary.

### **Special Assumptions, Departures and Limiting Conditions**

All three approaches to value were considered in this analysis.

The appraiser adhered to the following Departmental guidelines:

- Sales from 2002 through 2004 were used in the analyses.
- No market trends (market condition adjustments, time adjustments) were applied to sales prices. Models were developed without market trends. The utilization of three years of market information without adjustment for time averaged any net changes over the three-year period.
- This report is intended to meet the requirements of the Uniform Standards of Professional Appraisal Practice, Standard 6.

## **Identification of the Area**

### **Name or Designation: Major Retail Property**

Major retail properties consist of the “Regional Malls”, the single tenant discount retailers and the “Big Box” retailers. The regional mall properties are defined as those multi-tenanted properties in excess of 200,000 square feet of gross leasable area. The single tenant discount retailers and big box properties are generally in excess of 100,000 square feet. The major retail properties, in total, consist of 210 parcels.

**Boundaries:** All of King County

### **Maps:**

A general map of the area is included in this report. More detailed Assessor’s maps are located on the seventh floor of the King County Administration Building.

### **Area Description**

King County major retail properties fall into a number of categories. The most visible are the Regional Shopping Centers such as Northgate, Bellevue Square, Southcenter, and SeaTac Mall. There are also single-tenant, discount retailers such as Fred Meyer, Target, Wal-Mart, Sam’s Club, and Mervyn’s. There are the big box retail stores such as Lowe’s, Home Depot and Costco. University Village is categorized as a “life style center”. It has a blend of smaller retail outlets, in lieu of large anchor stores, and a variety of individual restaurants, in lieu of a Food Court. Pacific Place and Redmond Towne Center blend the concepts of life style centers and malls for a fresh concept for both urban and suburban shoppers.

### **Preliminary Ratio Analysis**

A preliminary ratio study was calculated prior to the application of the 2005 recommended values. This study benchmarks the current assessment level using 2004 posted values. The ratio study was repeated after application of the 2005 recommended values. The results, which are included in the validation section of this report, show an improvement in the COV from 19.19% down to 8.93%.

## ***Scope of Data***

### **Land Value Data**

Land values for major retail properties are selected by the appraiser for a given geographical area.

### **Improved Parcel Total Value Data**

Sales information is obtained from excise tax affidavits and reviewed initially by the Accounting Division, Sales Identification Section. Information is analyzed and investigated by the appraiser in the process of revaluation. Due to time constraints, interior inspections were limited. Sales are listed in the “Sales Used” and “Sales Not Used” sections of this report. Additional information resides in the Assessor’s procedure manual located in the Public Information area of the King County Administration Building.

### **Sales Comparison Approach**

There were six improved sales in the Major Retail specialty (area 250) with a sales price range of \$64 to \$336 per square foot of gross leaseable area (GLA) with an average sales price per square foot is \$197.

### **Cost Approach**

Cost estimates are calculated by the Marshall & Swift cost modeling system in the computerized “Real Property” program for all improved parcels. Depreciation is based on studies also done by Marshall & Swift Valuation Service. The dynamics of the retail market as well as the fact that income is the primary characteristic, around which investment analysis revolves, make it difficult to utilize the cost approach in valuing most major retail properties. Accordingly, the cost approach is most likely limited to valuing new construction and/or remodeling in the major retail properties.

### **Cost Calibration**

The Marshall & Swift cost-modeling system is built into the Department of Assessment’s Real Property application and automatically calibrates to the data in place in this application. This commercial cost estimator is also calibrated to the Western region and the Seattle area.

## Income Capitalization

The income approach to valuing major retail properties is based upon the analysis of a rental income stream. Rental rates, operating expenses and capitalization rates are obtained from sold properties as well as local and national publications. These sources assist the Assessor in estimating the appropriate rental rates, operating expenses, and capitalization rates for major retail properties.

Puget Sound Retail Market / CB Richard Ellis / 4<sup>th</sup> Qtr 2004

<u>ing</u> <u>Rate</u>	<u>Leased Area</u>	<u>Vacancy</u> <u>w/Sublease</u>	<u>Average</u> <u>NNN Rental</u>
Downtown CBD	1,561,530	2.46%	\$30.59
Bellevue/Eastside	10,387,033	2.36%	\$22.34
Northgate/North Seattle	9,054,844	1.10%	\$14.83
Southend	9,847,087	1.17%	\$21.84

This report includes all multi-tenant buildings 50,000 square feet and greater, all freestanding buildings of at least 20,000 square feet and downtown buildings greater than or equal to 25,000 square feet.

American Council of Life Insurers (ACLI) provides data that is related to Commercial Mortgage Commitments (loans), made by its reporting members on commercial properties, including retail properties. Here is a comparison of two years of the nationwide, fixed rate loan data on retail properties. Figures for last year's report, the 4th quarter of 2003 are as follows:

<u>Retail Loans by Loan Size</u>	<u>4<sup>th</sup> Qt. 2003</u> <u># Loans</u>	<u>Amount</u> <u>Committed</u>	<u>Avg. Loan</u> <u>Amount</u>	<u>Cap. Rates</u>	<u>Loan/</u> <u>Value</u>
Less than \$2 million	60	65,951,000	1,099,000	9.3%	64.4%
\$2 million - \$4,999,999	40	131,479,000	3,287,000	8.8%	68.4%
\$5 million - \$14,999,999	49	427,344,000	8,721,000	8.2%	68.0%
\$15 million - \$24,999,999	7	122,350,000	17,479,000	8.1%	65.6%
\$25 million and over	<u>10</u>	<u>555,700,000</u>	<u>55,570,000</u>	<u>7.7%</u>	<u>60.1%</u>
Total	166	\$1,302,824,000	\$7,848,000		
			Average	8.1%	64.3% <sup>2</sup>

<sup>2</sup>American Council of Life Insurers (ACLI), Commercial Mortgage Commitments, Fourth Quarter 2003, Fixed Rate Mortgages Only, Retail, pg. 20.

The following figures for 2004 show a greater strength in the retail market with an increased number of loans, the ratio of loan to value increasing and the capitalization rates decreasing.

Retail Loans by Loan Size	4 <sup>th</sup> Qt. 2004 # Loans	Amount Committed	Avg. Loan Amount	Cap. Rates	Loan/ Value
Less than \$2 million	91	105,912,000	1,164,000	8.9%	67.7%
\$2 million - \$4,999,999	68	207,901,000	3,057,000	8.6%	67.1%
\$5 million - \$14,999,999	51	429,222,000	8,416,000	8.0%	68.8%
\$15 million - \$24,999,999	6	115,550,000	19,258,000	7.1%	70.2%
\$25 million and over	<u>12</u>	<u>665,200,000</u>	<u>55,433,000</u>	<u>6.9%</u>	<u>66.1%</u>
Total	228	\$1,302,824,000	\$7,848,000	Average 7.6%	67.4% <sup>3</sup>

This data illustrates that investors perceive that larger, more expensive investment quality properties requiring larger loans as having less risk, therefore, have lower capitalization rates. This has consistently been the trend for a number of years.

This 2004 4th quarter data is specific to our area.

Metropolitan Statistical Area	Number of Loans	Amount Committed (\$000)	Average Loan Amount (\$000)	Loan/ Value	Capitalization Rate
Seattle-Bellevue-Everett,					
Retail	9	316,923	35,214	59.4%	6.6% <sup>4</sup>

The Korpacz Real Estate Investor Survey is a national publication that has a wealth of information. The survey represents a cross-section of major institutional equity real estate market participants who invest primarily in institutional-grade (investment quality) property. Rates and other assumptions presented in the survey indicate the participant's expectations from institutional-grade real property investment. Institutional-grade properties are those properties sought out by institutional buyers that have the capacity to meet the prevailing institutional investment criteria referred to in this survey. In the retail market, Korpacz reports on the National Regional Mall Market, the National Power Center Market, and the National Strip Mall Shopping Center Market.

<sup>3</sup> American Council of Life Insurers (ACLI), Commercial Mortgage Commitments, 4<sup>th</sup> Quarter 2004 Fixed Rate Mortgages Only, Retail, Table 8

<sup>4</sup> American Council of Life Insurers (ACLI), Commercial Mortgage Commitments, Year to Date 2004, Fixed Rate Mortgages Only, Seattle-Bellevue-Everett, WA, Retail, Table 11

### National Regional Mall Market

Korpacz sets forth the following regional mall classifications, based on inline store retail sales per square foot as follows:

<u>Class</u>	<u>Inline Retail Sales PSF<sup>5</sup></u>
A+	\$450 and up
A	\$350 to \$449
B+	\$300 to \$349
B	\$250 to \$299
C+	\$200 to \$249
C	\$125 to \$199
D	Less than \$125

The retail sector of commercial real estate investment has remained strong even during the downturn in the local market starting in 2001. In the Seattle Metropolitan Statistical Area, retail is the healthiest of all commercial property investments.<sup>6</sup> Nationally, on a year over year basis, trades of regional malls have decreased 20%. However, sales prices of regional malls have increased 20% year over year in the third quarter of 2004<sup>7</sup>. “With prices elevated and buyer interest still strong, a substantial number of mall properties are being offered for sale. Since so many investors are looking to place capital into commercial real estate, a lot of owners are placing assets up for sale and are testing the waters.”<sup>8</sup> The sale of Factoria Mall follows this trend. The sellers privately contacted potential investors and received a number of offers. Of particular interest are grocery-anchored shopping centers located in strong, affluent infill areas where barriers to entry limit the threat of Wal-Mart, the nation’s leading grocer. Fortress malls, the class A+ malls referenced above, and the best-located power centers, those malls dominated by large big-box anchors, are also hot prospects for investors.

### **Investment and Property Characteristics: National Markets**

<u>Market</u>	<b>Class A+ and A OAR</b>		<b>Class B+ and B Malls OAR</b>	
	<u>Range</u>	<u>Average</u>	<u>Range</u>	<u>Average</u>
Regional Mall	5.50% - 8.50%	6.92%	7.00 – 9.75%	8.72%
Power Center (all)	7.00% - 9.50%	8.17%		
Strip Mall (all)	6.25% - 9.50%	8.10% <sup>9</sup>		

<sup>5</sup> Korpacz Real Estate Investor Survey, 4<sup>th</sup> Quarter 2004, pg. 68

<sup>6</sup> IRR Viewpoint, Real Estate Value Trends 2005

<sup>7</sup> Korpacz Real Estate Investor Survey, 4<sup>th</sup> Quarter 2004, pg. 10

<sup>8</sup> Id.

<sup>9</sup> Korpacz Real Estate Investor Survey, 4<sup>th</sup> Quarter 2004, Table 3

## The National Economy

As the U.S. economy and the real estate industry both continue to gain strength, investors are showing increasing confidence in real estate investments. The amount of capital looking to be placed into commercial real estate has been unending.<sup>10</sup>

Over the next several years, real estate pricing will be supported by three major factors:

Strong Capital Flows. An improving stock market would normally shift capital flows away from real estate; however, real estate has gained strong favor throughout this cycle and will continue to attract domestic and foreign capital despite lower returns in the short term.

Orderly Transition. Interest rates are expected to rise gradually along with an improving economy; therefore, the increasing cost of capital will be accompanied by improving rents and occupancies, allowing fundamentals to catch up with pricing.

Expansion Cycle. The United States is entering a new expansion cycle with favorable projections for demographics and job growth.<sup>11</sup>

## Puget Sound Economic Conditions

Seattle employers are on track to add 46,000 jobs by year end, a 2.9% increase. Local job growth is fueled by gains in the professional and business services sector. Microsoft and Boeing are expected to hire 1,600 workers and 2,300 workers, respectively, in 2005.

The soft U.S. dollar relative to the euro is further enhancing Boeing's competitive position versus France-based Airbus.<sup>12</sup>

Strong demographics, stable retail fundamentals, and rising property values will continue to attract retail investors to the Seattle area.

## Executive Summary<sup>13</sup>

- Job growth in the Seattle region is expected to increase 2.9%
- Retail sales are forecast to increase by 3.7% in 2005
- Developers will complete 1.4 million square feet of new retail space in 2005
- The overall vacancy rate is expected to decline 50 basis points, to 5.0%, in 2005.

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<sup>10</sup> Korpacz Real Estate Investor Survey, 4th<sup>th</sup> Quarter 2004, pg. 2

<sup>11</sup> Marcus & Millichap, Special Research Report, 2004 Forecast, pg. 1

<sup>12</sup> Marcus & Millichap, Special Research Report, 2004 Forecast, pg. 2

<sup>13</sup> Marcus & Millichap, Retail Research Report, February 2004, pg. 2.



- The gap between asking and effective rent will begin to close in 2005, increasing owners' bottom lines.
- Prices for local retail properties are forecast to rise by 3% in 2004 as vacancy begins to subside and retail sales growth accelerates."<sup>14</sup>

## **Income Approach Calibration**

Properties in 250-30 were valued based on an Income Model for big box and discount retail stores, which comprise this neighborhood. All properties in neighborhood 30 were physically inspected in 2004. All major retail properties located in Shoreline, Lake Forest Park, Woodinville and Redmond were inspected this year. Income tables were calibrated after setting economic rents, vacancy, expenses, and capitalization rates by using adjustments based on effective age and construction quality. Adjustments for location were made when necessary. The typical net rent range for retail (use code 353) was \$14.00 to \$18.00 per square foot of rentable area and capitalization rates were 8.75% to 9.25%. Allowances for vacancy and collection loss were stabilized at 5% and expenses at 10%.

Tables were developed this year, to value less complex mall properties and two downtown Seattle department stores. The parameters listed above were also used to value these properties.

The complex mall properties in King County were appraised individually. Anchor stores have relatively low rents, less than \$6.00 per square foot per year where smaller retail stores may lease for \$40 per square foot per year. Capitalization rates of 7.50% to 9.5% were used in the analysis of the regional malls. The investment quality of the property determined the capitalization rate. Location, condition, age, and tenancy were considered in the valuation of the regional malls.

A vacancy and credit loss rate of 5% was applied to regional mall properties.

Operating expenses of 10% to 15% was applied to most retail properties.

Generally, the institutional grade properties were analyzed using higher average rents and lower capitalization rates than non-institutional grade properties.

## **Reconciliation and or validation study of calibrated value models including ratio study of hold out samples.**

Values for all parcels were reviewed by the specialty appraiser for correctness of the model application before final value was selected.

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<sup>14</sup> Marcus & Millichap, Retail Research Report, February 2004, pg. 1.

## **Model Validation**

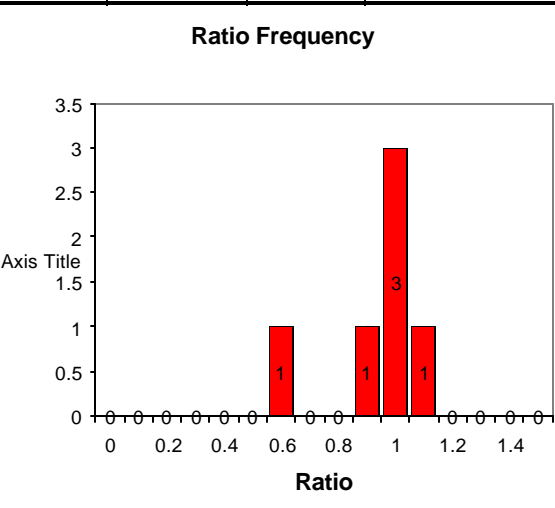
### **Total Value Conclusions, Recommendations and Validation:**

Appraiser judgment prevails in all decisions regarding individual parcel valuation. Each parcel is reviewed and a value selected based on general and specific data pertaining to the parcel, the neighborhood, and the market. The appraiser determines which value estimate may be appropriate and may adjust particular characteristics and conditions as they occur in the valuation area.

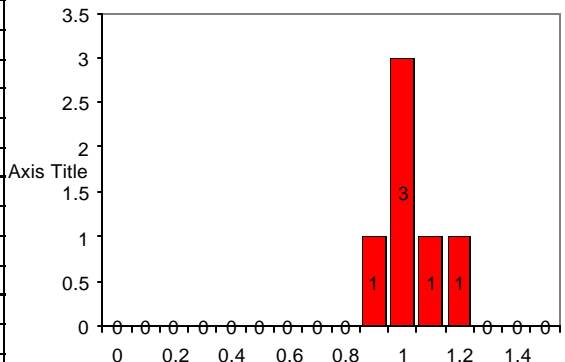
Application of the recommended values results in improved assessment level, uniformity and reliability. The weighted mean ratio showed an improvement in the assessment level from 82.1% to 97.3%, the coefficient of variation improved from 19.19% to 8.93% and the price related differential improved from 1.06 to 1.02. The standard statistical measures of valuation performance are all within IAAO guidelines.

The total assessed value for the 2004 assessment year was \$2,500,288,500 and the total recommended assessed value for the 2005 assessment year is \$2,644,357,300. Application of these recommended values for the 2005 assessment year (taxes payable in 2006) results in a total change from the 2004 assessments of + 5.76%. The increase is due to market appreciation, new construction, previous below-market assessment levels and updated property characteristics.

## Improvement Ratio Study (Before Revalue) 2004 Assessments

Quadrant/Crew:	Lien Date:	Date:	Sales Dates:
East Crew	1/1/2004	6/6/2005	8/2/02 - 12/29/04
Area	Appr ID:	Prop Type:	Trend used?: Y / N
250	JPLA	Improvement	N
SAMPLE STATISTICS			
Sample size (n)	6		
Mean Assessed Value	44,785,000		
Mean Sales Price	54,523,700		
Standard Deviation AV	25,977,192		
Standard Deviation SP	33,946,834		
ASSESSMENT LEVEL			
Arithmetic mean ratio	0.872	<div>These figures reflect measurements <u>before</u> posting new values.</div>	
Median Ratio	0.940		
Weighted Mean Ratio	0.821		
UNIFORMITY			
Lowest ratio	0.5480		
Highest ratio:	1.0000		
Coefficient of Dispersion	10.49%		
Standard Deviation	0.1674		
Coefficient of Variation	19.19%		
Price-related Differential	1.06		
RELIABILITY			
95% Confidence: Median			
Lower limit	0.548		
Upper limit	1.000		
95% Confidence: Mean			
Lower limit	0.738		
Upper limit	1.006		
SAMPLE SIZE EVALUATION			
N (population size)	209		
B (acceptable error - in decimal)	0.05		
S (estimated from this sample)	0.1674		
Recommended minimum:	37		
Actual sample size:	6		
Conclusion:	Uh-oh		
NORMALITY			
Binomial Test			
# ratios below mean:	2		
# ratios above mean:	4		
z:	0.40824829		
Conclusion:	Normal*		
*i.e., no evidence of non-normality			

## Improvement Ratio Study (After Revalue) 2005 Assessments

Quadrant/Crew:		Lien Date:		Date:		Sales Dates:	
East Crew		1/1/2005		6/30/2005		8/2/02 - 12/29/04	
Area		Appr ID:		Prop Type:		Trend used?: Y / N	
250		JPLA		Improvement		N	
SAMPLE STATISTICS							
Sample size (n)		6		<div><div>Ratio Frequency</div></div>			
Mean Assessed Value		53,039,600					
Mean Sales Price		54,523,700					
Standard Deviation AV		30,041,033					
Standard Deviation SP		33,946,834					
ASSESSMENT LEVEL							
Arithmetic mean ratio		0.993					
Median Ratio		0.974					
Weighted Mean Ratio		0.973					
UNIFORMITY							
Lowest ratio		0.8805					
Highest ratio:		1.1246					
Coefficient of Dispersion		6.99%					
Standard Deviation		0.0887					
Coefficient of Variation		8.93%					
Price-related Differential		1.02					
RELIABILITY							
95% Confidence: Median							
Lower limit		0.880					
Upper limit		1.125		These figures reflect measurements <u>after</u> posting new values.			
95% Confidence: Mean							
Lower limit		0.922					
Upper limit		1.064					
SAMPLE SIZE EVALUATION							
N (population size)		209					
B (acceptable error - in decimal)		0.05					
S (estimated from this sample)		0.0887					
Recommended minimum:		12					
Actual sample size:		6					
Conclusion:		Uh-oh					
NORMALITY							
Binomial Test							
# ratios below mean:		3					
# ratios above mean:		3					
z:		-0.40824829					
Conclusion:		Normal*					
*i.e., no evidence of non-normality							

## Improvement Sales Used For Specialty Area 250 – Major Retail

Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code
250	015	197670	0045	248,227	1983887	\$54,499,500	08/28/03	\$219.56	MERIDIAN CENTER WEST & EAST	DOC2-30	2	Y
250	030	292604	9109	269,793	2052514	\$48,455,000	06/28/04	\$179.60	NORTHGATE NORTH	NC3-65	1	Y
250	032	262304	9110	460,072	1937493	\$88,323,800	02/04/03	\$191.98	PARKWAY PLAZA NORTH	TUC	4	Y
250	051	692840	0020	181,993	2014355	\$37,000,000	01/21/04	\$203.30	TOTEM LAKE SHPG CTR-LOWER&UPPER	BC	4	Y
250	058	162405	9309	9,476	1903032	\$3,477,000	08/02/02	\$366.93	BILLY MC HALES	F1	2	Y
250	058	244270	0060	499,717	2093211	\$95,387,075	12/29/04	\$190.88	Factoria Mall	F1	14	Y